Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Funding Strategy and Guide to the 2020 Industry Funding Regulations

Contents

Summary

This publication is intended to provide a guide as to how the Industry Funding levy for 2020 is calculated. The guide is divided into six sections as follows:

If you have queries regarding the 2020 Industry Funding Regulations, please refer to the Frequently Asked Questions section in the Industry Funding Levy area of our website www.centralbank.ie or send an e-mail to billing@centralbank.ie

Section 1 – Funding Strategy

The Central Bank continues to progress its funding strategy which aims to:

(i) Increase the proportion of costs chargeable to industry and reduce the burden of subvention on the taxpayer, with the ultimate aim of regulated firms paying the full cost of financial regulation activity;

(ii) Adopt principles which support a predictable, transparent and proportionate pricing approach; and

(iii) Reduce complexity and risk in the areas of funding policy and execution.

In line with this strategy, the 2020 invoices will, for the first time, be based on the Central Bank's actual costs of regulation in 2019. Mindful of the very challenging operating environment and the impact on entities it supervises, the Central Bank deferred plans to issue invoices from July to September. Other considerations reflect:

1. The enormous pressure on public finances and the need to limit subvention of costs which ultimately increases the burden on the taxpayer;
2. The Central Bank's dividend to the Exchequer for 2019 has already been paid and assumes collection of accrued 2019 levy income; and
3. Industry has had the benefit of a cash-flow break in 2019, arising from a year of transition to an "arrears" basis. Industry invoices were last issued in November 2018.

Recovery rates in the 2020 billing cycle will reflect the rates approved by the Minister for Finance in 2019 and communicated to industry bodies at that time.

Section 2 – Background to the 2020 Industry Funding Regulations

2.1 The Regulations referred to in this Guide are the Central Bank Act 1942 (Section 32D) Regulations 2020. The objective of the Regulations is to raise the agreed proportion (see Table 17 in Section 5) of the cost attributable to the Central Bank's financial regulation activities in 2019 directly from the financial service providers it regulates. Accordingly, the Regulations apply to all persons who are subject to regulation by the Central Bank.

2.2 The Government gave the power to raise such a levy to the ***Central Bank*** Commission under the Central Bank Reform Act, 2010. In accordance with the legislation, the Commission has obtained the approval of the Minister for Finance of its 2020 levy proposals.

2.3 The Regulations were signed into law by the Deputy Governor Prudential Regulation on 31 August 2020 and came into operation on 4 September 2020. As of that date, all ***financial service providers*** are liable to pay an annual levy. The levy must be paid no later than 28 days from the date on the levy invoice.

2.4 A ***financial service provider*** may hold more than one authorisation from the ***Central Bank*** and may, therefore, fall into more than one ***industry funding category***. In such cases, the ***financial service provider*** will be liable for a levy for each category in respect of which it holds an authorisation – each levy will be invoiced separately. For example, a credit union (Category F) which also holds a multi-agency intermediary authorisation (Category C) will be obliged to pay the levy for both categories.

Collection of the Levy

2.5 The ***Central Bank*** sends almost all ***financial service providers*** a levy invoice after the Regulations are made. However, even if a ***regulated entity*** does not receive a levy invoice, it is still legally obliged to pay the appropriate levy for its ***industry funding category*** in the Regulations. Any such ***financial service provider*** should request a copy levy invoice by e-mail from billing@centralbank.ie.

2.6 Levies may be paid either by direct debit or electronic funds transfer (EFT). To ensure that payments are dealt with efficiently, all payments made by EFT must include details of the levy invoice number and/or the account number. Failure to include the required details may result in the EFT payment being returned at the ***financial service provider's*** expense. Full details for payment by EFT will be supplied on invoices.

2.7 If a ***financial service provider*** fails to pay the levy by the required date, the ***Central Bank*** may take steps to recover the amount of the levy. Recovery action may include court proceedings.

Supplementary Levies

2.8 Certain regulated entities will be required to pay an additional (or supplementary) levy to the ***Central Bank*** to fund the cost of a particular initiative or regulatory action. The purpose of supplementary levies is to re-charge costs attributable to specific firms where costs can be directly attributable to them in order to avoid imposing them on all firms in the ***Industry Funding Category***. Details of 2020 supplementary levies are tabulated below:

Category	Applicable to	Costs to be funded by this levy
A1a	ELG Scheme Credit Institutions (see Section 4.1 below)[1]	Cost of carrying out investigations relating to inquires that may be held by the ***Central Bank*** under Part IIIC of the Central Bank Act, 1942.
A	Relevant credit Institutions [1]	Costs related to the ***Central Bank's*** investigation of tracker mortgage issues
A	Credit institutions seeking significant changes to their business model and/or activities[2]	Costs associated with the consideration of such proposals
D	Investment Firms subject to ***Client Asset Requirements***[2]	Costs attributable to the performance of the ***Central Bank's*** functions under the ***Client Asset Requirements***
D	Investment firms subject to Bank Recovery and Resolution Regulations (2015) [1]	Costs attributable to the performance of the ***Central Bank***'s functions as resolution authority under the European Union (Bank Recovery and Resolution) Regulations 2015

Note 1: Similar supplementary levies applied in 2017
Note 2: Similar supplementary levies applied in 2018

2.9 Such supplementary levy will be set out in a levy notice sent to the ***financial service providers*** concerned.

2.10 Supplementary levies apply on a full year basis even where the relevant entity is authorised by the ***Central Bank*** only for part of a year.

Pro-Rata Levies

2.11 Each ***financial service provider*** will be liable to a levy for the portion of the year in respect of which it holds an authorisation from the ***Central Bank***. It follows that ***financial service providers*** authorised in 2019 were liable to a levy covering the period from date of authorisation to 31 December 2019 and were levied in 2019. To accommodate the move to levying in arrears, financial service providers authorised in 2020 will be levied in 2021.

2.12 Similarly, ***financial service providers*** whose authorisation was revoked during the course of 2019 were liable to a levy covering the period 1 January 2019 to the date on which the relevant authorisation was revoked and were levied at the time of revocation. ***Financial service providers*** whose authorisation is revoked in 2020 will continue to be levied at the time of revocation.

Appeals and Waivers

2.13 Previous provisions in relation to appeals and waivers have been amalgamated in Regulation 10 to provide greater clarity on the parameters of an appeal.

2.14 Appeals must be submitted within 21 days of the due date of the levy contribution /supplemental levy contribution. This deadline will be strictly enforced.

2.15 Any such appeal must

- set out in writing the grounds for the appeal and include all supporting documentation or representations; and
- be accompanied by a payment or a receipt evidencing payment of that portion of the levy contribution/supplementary levy contribution that is not under appeal.

2.16 Where, in the reasonable opinion of the ***Central Bank***, the obligation of a regulated entity to pay a levy contribution/supplementary levy would be likely to make that entity insolvent, or where the regulated entity/former regulated entity is a sole trader or, bankrupt, the ***Central Bank*** may waive the obligation of that entity under these regulations to pay the levy contribution supplementary levy contribution.

2.17 The ***Central Bank*** may, at its discretion, waive or reduce part/all of a levy contribution supplementary levy contribution in exceptional circumstances.

2.18 The ***Central Bank*** shall advise the regulated entity in writing of its decision in respect of the appeal, providing reasons and details of any amount outstanding and the due date applicable for the payment of any outstanding levy liability.

Records

2.19 A ***financial service provider*** must keep all records on which the levy has been calculated for so long as the Regulations stipulate. Regulation 13 stipulates that this requirement is applicable for a period of six years.

Section 3 – Recovery Rates

3.1 In support of the Bank's funding strategy, the 2020 Funding Regulations reflect agreed increases in recovery rates. The recovery rates communicated in 2019 are illustrated below and the rates applicable in the 2020 Regulations are highlighted in red.

Recovery Rates	*Actual*		Projected					
Levy Year →	*2017*	*2018*	2019	2020	2021	2022	2023	2024
Levied in →	*2017*	*2018*	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*
ELG Banks	*100%*	*100%*	100%					
Banks								
Insurance Undertakings	*65%*	*80%*	90%			100%		
Investment Firms & Fund Service Providers								
Funds	*65%*	*65%*	80%	90%		100%		
Retail Intermediaries & Debt Management Co's	*50%*							
Moneylenders								
Approved Professional Bodies								
Bureau de Change/Money Transmitters	*65%*	*65%*	70%	75%	80%	90%	100%	
Retail Credit / Home Reversion /Credit Servicing Firms								
Payment & EMoney Institutions								
Credit Unions	*.01% of total assets*		20%	35%	50%*	TBC[3]	TBC	TBC

Section 4 – Calculation of the Levy

4.1 Category A: Credit Institutions

A1a – Significant supervised entities within the meaning of the SSM Framework Regulation (Regulation EU) No. 468/2014 of the European Central Bank (ECB/2014/17)) — which were admitted to the Eligible Liabilities Guarantee Scheme 2009 ("the ELG Scheme Institutions")

Each credit institution in this sub-category shall be liable to pay an Industry Funding Levy consisting of the sum of a minimum amount and a variable amount.

Minimum amount: €148,536

Variable amount: The variable amount (V) is calculated as follows:

$$V = ((S+G) * 50\%) * C$$

Where

S =	the credit institution's percentage share of the sum of total assets for category **A1** (based on the credit institution's report in FINREP template F01.01 row 380 for the period 31 December 2019[1]);
G =	the credit institution's percentage share of the sum of total risk exposure for category **A1** (based on the credit institution's report in COREP template C02.00 row 010 for the period 31 December 2019);
C =	the proportion of total variable amount for category **A1** relevant to this sub-category **A1a**.

The values of S, G and C relevant to their levy calculations will be communicated directly by the ***Central Bank*** to each credit institution.

[1] For credit institutions whose year-end is October, data for the period 31 October 2019 will be used.

A1b – Irish authorised Credit Institutions that are outside the scope of sub-category A1a

Each credit institution in this sub-category shall be liable to pay a levy contribution consisting of the sum of a minimum amount and a variable amount.

Minimum amount: €133,683

Variable amount: The variable amount (V) is calculated as follows:

V = ((S+G) * 50%) * C

Where

S =	the credit institution's percentage share of the sum of total assets for category **A1** (based on the credit institution's report in FINREP template F01.01 row 380 for the period 31 December 2019[2]);
G =	the credit institution's percentage share of the sum of total risk exposure for category **A1** (based on the credit institution's report in COREP template C02.00 row 010 for the period 31 December 2019);
C =	the proportion of total variable amount for category **A1** relevant to this sub-category **A1b**.

The values of S, G and C relevant to their levy calculations will be communicated directly by the ***Central Bank*** to each credit institution.

A2 – Credit Institutions authorised in another EEA state operating in Ireland on a branch basis

Credit institutions authorised in another EEA state operating in Ireland on a branch basis are obliged to pay a flat rate levy of €25,000.

A3 – Credit Institutions authorised in another EEA state operating in Ireland on a cross border basis

Credit institutions authorised in another EEA state operating in Ireland on a cross border basis are obliged to pay a flat rate levy of €25,000. No levy invoices will be issued.

[2] For credit institutions whose year-end is October, data for the period 31 October 2019 will be used.

Credit Institutions – Supplementary levies

Credit institutions (where appropriate) will continue to be liable to pay supplementary levies to the ***Central Bank*** for the purposes of providing sufficient funds to recover costs arising from:

(i) the conduct of inquiries and investigations under Part IIIC of the Central Bank 1942;

(ii) tracker mortgage examination, investigation and related issues; and

(iii) significant changes to business models and/or activities

These supplementary levies will be set out in separate levy invoices sent to relevant credit institutions.

4.2 Category B: Insurance Undertakings

B1 – Life undertakings with Irish head office and life insurance undertakings authorised in another non-EEA state operating in Ireland

B4 – Non life undertakings with Irish head office

B7 – Reinsurance undertakings with Irish head office

Such institutions shall be liable to pay the levy contribution corresponding to its **impact category** as set out in Table 1 below.

Table 1					
Impact Category	*Ultra High*	*High*	*Medium High*	*Medium Low*	*Low*
Levy	€3,562,052	€1,616,281	€369,563	€73,467	€22,822

B2 – Life undertakings authorised in another EEA state operating in Ireland on a branch basis

All entities with the relevant gross premium income written on Irish risk business shall pay a flat rate levy as set out in Table 2 below.

Table 2		
Gross Premium written on Irish risk business	*€0 - €100 million*	*> €100 million*
Levy	€17,117	€184,781

B3 – Life undertakings authorised in another EEA state operating in Ireland on a cross border basis

As insurance undertakings operating in Ireland on a cross border basis may write Irish risk business they will be subject to a levy designed to contribute towards the cost of consumer protection regulation. The amount of such levy is set out in Table 3 below.

Table 3					
Impact Category	*Ultra High*	*High*	*Medium High*	*Medium Low*	*Low*
Levy	N/A	N/A	N/A	N/A	€17,117

B5a – Non life insurance undertakings authorised in another EEA state operating in Ireland on a branch basis that write motor insurance in Ireland

All entities with the relevant gross premium income written on Irish risk business shall pay a flat rate levy as set out in Table 4 below.

Table 4		
Gross Premium written on Irish risk business	*€0 - €50 million*	*> €50 million*
Levy	€36,734	€184,781

B5b – Non life insurance undertakings authorised in another EEA state operating in Ireland on a branch basis that is not included in B5a

All entities in this sub-category shall pay a flat rate levy of €17,117.

B6 – Non life undertakings authorised in another EEA state operating in Ireland on a cross border basis

As insurance undertakings operating in Ireland on a cross border basis may write Irish risk business, they will be subject to a levy designed to contribute towards the cost of consumer protection regulation. The amount of such levy is set out in Table 5 below.

Table 5					
Impact Category	*Ultra High*	*High*	*Medium High*	*Medium Low*	*Low*
Levy	N/A	N/A	N/A	N/A	€17,117

4.3 Category C: Intermediaries and Debt Management Firms

Levies payable by intermediaries and debt management firms are determined by the firms' total income from fees and income from commission as submitted through the Online Reporting System. The levy for intermediaries and debt management companies will be calculated according to the following formula:

Minimum Levy: €1,025 plus
Variable Levy calculated as follows:

(A - B) x C

Where:

A = total of firm's 'Income from Fees' and 'Income from Commissions' as reported in the firm's ***On-Line Regulatory Return*** for the 2018 financial year which was due for submission to the Central Bank at end-June 2019.

B = threshold level of total 'Income from Fees' and 'Income from Commissions' of €200,000;

C = variable levy rate of 0.33%.

Income from fees and income from commissions should be shown before deduction of any commission payable to a third party.

Intermediaries and debt management companies newly authorised and not yet due to submit an ***On-Line Regulatory Return*** shall be liable to pay the minimum Industry Funding Levy applicable to this category of €1,025.

Intermediaries and debt management companies that fail to submit their ***On-Line Regulatory Return*** in accordance with regulatory requirements shall be liable to a default levy amounting to €3,600. This default levy will be cancelled, however, and replaced with a levy calculated in accordance with the entity's reported income from fees and income from commissions following submission of its ***On-Line Regulatory Return***.

4.4 Category D: Investment Firms

D1 – Designated Fund Managers

D2 – Receipt and Transmission of Orders and/or Provision of Investment Advice

D3 – Portfolio Management; Execution of Orders

D4 – Own Account Trading; Underwriting on a Firm Commitment Basis

D6 – Firms authorised under the Investment Intermediaries Act, 1995 that are not captured in any other levy category

A ***regulated entity*** falling within any of the above sub-categories of Investment Firms authorised by the ***Central Bank*** shall be liable to pay the levy corresponding to its ***impact category*** as set out in Table 6 below.

D5 – Stock Exchange Member Firms

A Member Firm of the Irish Stock Exchange authorised by the ***Central Bank*** shall be liable to pay the levy corresponding to its ***impact category*** as set out in Table 6 below.

D9 – High Volume Algorithmic Trading Firms

A ***High Volume Algorithmic Trading Firm*** authorised by the ***Central Bank*** shall be liable to pay the levy corresponding to its ***impact category*** as set out in Table 6 below.

D10 - Market Infrastructure Firms

A ***Market Infrastructure firm*** authorised by the ***Central Bank*** shall be liable to pay the levy corresponding to its ***impact category*** as set out in Table 6 below.

Table 6			
Impact Category	*Medium High*	*Medium Low*	*Low*
Levy	€577,847	€114,874	€12,029

D1 to D10 as above, where subject to Client Asset Requirements:

Firms in D1 to D10 above that are subject to the ***Client Asset Requirements*** shall pay a supplementary levy to the ***Central Bank*** corresponding to its impact category as set out in Table 7 below.

Table 7			
Impact Category	Medium High	Medium Low	Low
Levy	€126,797	€25,207	€3,534

Bank Recovery and Resolution Directive

Investment Firms within the meaning of Regulation 3 of the European Union (Bank Recovery and Resolution) Regulations, 2015 shall pay a supplementary administration levy to the ***Central Bank*** corresponding to its impact category as set out in Table 8 below.

Table 8			
Impact Category	*Medium High*	*Medium Low*	*Low*
Levy	€159,779	€31,763	€15,882

D11 – Investment firms authorised in another EEA state operating in Ireland on a branch basis.

All entities in this sub-category shall pay a flat rate levy of €12,029.

4.5 Category E1: Investment Funds

E1a - Authorised UCITS; Authorised Unit Trusts; Authorised Investment Companies (Designated and Non Designated); Authorised Investment Limited Partnerships; Authorised Common Contractual Funds; Authorised Irish Collective Asset-management Vehicles

E1b - UCITS Self-Managed Investment Companies (SMICs); Authorised Designated Investment Companies (Internally Managed Alternative Investment Funds); Authorised Irish Collective Asset-management Vehicles (Internally Managed Alternative Investment Funds); Authorised Irish Collective Asset-management Vehicles (UCITS SMICS)

All funds authorised by the ***Central Bank*** shall be liable to pay a minimum levy of €4,990. Umbrella funds will also pay a contribution per sub-fund of €375 up to ten sub-funds and a further levy of €250 on sub-funds numbers greater than ten, to a maximum of twenty sub-funds, resulting in a maximum contribution for umbrella funds of €11,240.

	Table 9		
	No. of Sub Funds	*Levy per sub-fund*	*Total Levy*
Up to 10 Sub-funds	2	€375	€5,740
	3	€375	€6,115
	4	€375	€6,490
	5	€375	€6,865
	6	€375	€7,240
	7	€375	€7,615
	8	€375	€7,990
	9	€375	€8,365
	10	€375	€8,740
11 – 20 Sub-funds	11	€250	€8,990
	12	€250	€9,240
	13	€250	€9,490
	14	€250	€9,740
	15	€250	€9,990
	16	€250	€10,240
	17	€250	€10,490
	18	€250	€10,740
	19	€250	€10,990
	20	€250	€11,240

4.6 Category E2: Alternative Investment Fund Managers and Other Investment Fund Service Providers

E2a - AIF Management Companies

E2b - Administrators; UCITS Managers (Non Delegating); Depositories; Alternative Investment Fund Managers

E2c - UCITS Managers (Delegating)

An ***Investment fund service provider*** falling within any of the above sub-categories and which has been authorised by the ***Central Bank*** shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 10.

Table 10			
Impact Category	*Medium High*	*Medium Low*	*Low*
Levy	€577,847	€114,874	€12,029

E2d – UCITS managers and alternative investment fund managers authorised in another EEA state operating in Ireland as such on a branch basis.

All entities in this sub-category shall pay a flat rate levy of €12,029.

4.7 Category F: Credit Unions

A Credit Union is liable to pay a levy of 0.01493 per cent of total assets as reported in its quarterly prudential return setting out its balance sheet as at 31 December 2019.

4.8 Category G: Moneylenders

Levies payable by moneylenders are determined by the firms' turnover reported to the ***Central Bank*** in section 6.2 of the most recently received Renewal Application for the entity. The amount of the levy will be calculated according to the following formula:

Minimum Levy: €1,818 plus

Variable Levy calculated as follows:

$$(A - B) \times C$$

Where:

A = firms' turnover reported to the ***Central Bank*** in section 6.2 of the most recently received Renewal Application for the entity

B = threshold level of total 'Turnover' of €60,000;

C = variable levy rate of 1.118%.

4.9 Category H: Approved Professional Bodies

Each approved professional body shall be liable to pay the levy contribution corresponding to its impact category as set out in Table 11.

Table 11

Impact Category	*Ultra High*	*High*	*Medium High*	*Medium Low*	*Low*
Levy	N/A	N/A	N/A	N/A	€2,650

4.10 Category J1: Bureaux de Change

Each bureau de change that has been authorised by the ***Central Bank*** shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 12.

Table 12					
Impact Category	*Ultra High*	*High*	*Medium High*	*Medium Low*	*Low*
Levy	N/A	N/A	N/A	N/A	€1,296

4.11 Category L: Default Assessment

Each ***regulated entity*** defined as a defaulting entity pursuant to Regulation 13(4) of the 2020 Regulations is liable to pay a flat rate levy of €3,600.

4.12 Category M: Retail Credit Firms, Home Reversion Firms and Credit Servicing Firms

M1 – Retail Credit Firms

M3 – Credit Servicing Firms

Each retail credit firm and credit servicing firm that has been authorised by the ***Central Bank*** shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 13 below.

Table 13					
Impact Category	*Ultra High*	*High*	*Medium High*	*Medium Low*	*Low*
Levy	N/A	N/A	N/A	N/A	€50,639

M2 – Home Reversion Firms

Each home reversion firm that has been authorised by the ***Central Bank*** shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 14.

Table 14					
Impact Category	*Ultra High*	*High*	*Medium High*	*Medium Low*	*Low*
Levy	N/A	N/A	N/A	N/A	€506

4.13 Category N: Payment Institutions and E-Money Institutions

Each payment and e-money institution that has been authorised by the ***Central Bank*** shall be liable to pay the levy contribution corresponding to its ***impact category*** and ***impact score*** as set out in Table 15.

Table 15					
Impact Category	*Medium High*	*Medium Low*	*Low*		
			Band 3 ≥ 75.1	*Band 2 51.1 - 75.0*	*Band 1 ≤ 51.0*
Levy	€877,509	€240,733	€176,105	€19,505	€3,900

Section 5 – Financial Information for Industry

Cost of Financial Regulation in 2019

5.1 The 2019 Annual Report sets out an adjusted[3] cost of financial regulation activities of €204.5 million, a decrease of €8.6 million (-4.0%) on the 2018 outturn of €213.1 million. A key driver here is a change in treatment of pension costs – see 5.3 below.

5.2 However, as industry was last billed based on the 2018 adjusted[5] cost *budget* €190.9 million (outturn €213.1m), in line with usual practice industry's share of the shortfall is being recouped in the current billing cycle. Hereafter, significant balancing items should feature less frequently, as all levies will be based on actual costs.

5.3 Since 2015, pension accounting charges have been smoothed in order to reduce levy volatility. However, an assumption at the time that the low yielding environment was a temporary phenomenon has given rise to a growing deferred income asset (income recognised but not yet collected). In a change that will be welcomed by industry, the Central Bank has revisited this policy and has decided to move from smoothed accounting charges to actual cash contribution rates as a basis for calculating financial regulation costs. The deferred income asset will be recouped over a three-year period commencing with the 2021 billing cycle (2020 actual costs).

5.4 Brexit related activity was significant in 2019 and final invoicing plans reflect a decision to apply additional subvention of costs chiefly associated with exceptional authorisation activity.

5.5 The amount to be raised from Industry in the 2020 invoicing cycle (nAFR[4]) of €165.8 million (2018 €127.1 million[5]) takes account of:

- Increases in recovery rates in line with the trajectory published in 2019;
- An updated shortfall of €16.0 million which arose between the amount collected from the 2018 levy and the 2018 actual cost attributable to Industry;
- A reduction in cost, following a change in the basis on which pension costs are levied; and
- Subvention mainly in relation to exceptional Brexit-related authorisation activity.

[3] Adjusted to reflect treatment of pension costs in the levy calculation process (as set out in 5.3 above)
[4] Net Annual Funding Requirement
[5] 2018 actual levy income

5.6 The estimated subvention of €49.4 million is attributable to the following costs which are not being recovered within the 2020 levy cycle:

Table 16 - Subvention		€m
1	Credit Union sector: recovery rate of 20% results in subvention of €11.0 million	11.0
2	Markets Supervision: In line with established policy, funding of certain market supervision activities results in subvention of €9.4 million. The Central Bank is planning to issue a public consultation to reduce this gap in future levy cycles	9.4
3	Brexit: Exceptional authorisation activity in 2019 resulted in a decision to apply limited additional subvention to certain categories of firms and to subvent costs associated with the establishment of a Wholesale Conduct supervisory framework	6.0
3	Administrative Sanctions Process: On-going funding of enquiries which commenced prior to 1 January 2018 gives rise to subvention of €4.5 million	4.5
4	Minor additional subventions: Applied to contain the impact of rate increases on small populations	0.2
5	In transition to 100% Funding: While there are plans to move all categories other than Credit Unions to 100% funding, based on recovery rates in the 2020 Regulations, the shortfall requires subvention of €18.2 million.	18.2
	Total	**€49.4**

How the *net Annual Funding Requirement (nAFR)* is determined

5.7 The ***gross Annual Funding Requirement (gAFR)*** is calculated by applying the target recovery rate for each sector (see 3.1 earlier) to the cost of regulating that sector.

Table 17			
Industry Funding Category	Category	2019 Recovery Rate	2018 Recovery Rate
ELG Credit Institutions	A1a	100%	100%
Other Credit Institutions	A1b, A2, A3	90%	80%
Insurance Undertakings	B	90%	80%
Retail Intermediaries and Debt Management Firms	C	70%	65%
Investment Firms	D	90%	80%
Client Asset Requirements	D	90%	80%
BRRD Admin Levy	D	90%	80%
Funds	E1	80%	65%

Fund Service Providers	E2	90%	80%
Credit Unions	F	0.01493% of Total Assets, an effective rate of c20%	0.01% of Total Assets, an effective rate of c9%
Moneylenders	G	70%	65%
Approved Professional Bodies	H	70%	65%
Bureaux de Change	J	70%*	65%*
Retail Credit, Home Reversion and Credit Servicing Firms	M	70%	65%
Payment and E-Money Institutions	N	70%*	65%*

5.8 In order to determine the amount that must be collected from industry in respect of 2019 costs – the 2019 ***nAFR*** – an adjustment is made for the under recovery of costs in 2018. This adjustment is calculated by comparing the amounts collected from the 2018 industry funding levy with the proportion of actual expenditure attributable to Industry in 2018. An adjusted shortfall of €16.0 million arose in 2018 and the required amount to be collected from industry in 2020 has been increased accordingly.

5.9 Unpaid levies represent €0.7 million of this shortfall. Since 2015, unpaid levies have been redistributed over all categories in proportion to each category's share of levies before redistribution. This approach avoids the paradox whereby failure to pay the levy benefits the delinquent firm and also imposes the costs it has avoided on its direct competitors.

5.10 Subvention – Subvention details are set out in section 5.6

5.11 Following adjustment for the shortfall relating to 2018 and the subvention of certain costs, the amount to be collected from industry in 2020 is €165.8 million of which €5.6 million has already been billed, leaving a balance of €160.1 million to be invoiced in the upcoming billing process – See Appendix 1 (numbers rounded).

Calculation of Levy rates for individual *Financial Service Providers*

5.12 Costs directly attributable to a particular ***industry funding category*** are allocated solely to the ***industry funding category*** concerned. Such costs include the pay, non-pay and overhead costs associated with the front-line supervision of ***regulated entities*** on a day to day basis. They also include pay, non-pay and overhead costs associated with divisional management and with those specialist support staff located within supervision divisions of the ***Central Bank*** who provide expert advice and support relating to particular ***industry funding categories***.

5.13 A series of policies govern how costs are aggregated and allocated to industry categories. These policies are subject to annual review by a Levy Oversight Committee and approval of the Deputy Governor of Prudential Regulation.

5.14 The basis for calculating levies within each ***industry funding category*** is set out in Table 18:

Table 18

Industry Funding Categories	Levy Type	Ref	Basis for Distribution of Costs across firms within each of these categories
• Insurance Undertakings • Investment Firms • Fund Service Providers • Firms subject to Client Asset Requirements • Firms subject to BRRD Admin Levy • Non-low impact Payment and E-Money Institutions	PRISM Based	4.2 4.4 4.6 4.4 4.4 4.13	Based on relative allocations of the supervisory resources attributable to the ***Industry Funding Category*** concerned
• Credit Institutions • Retail Intermediaries & Debt Management Firms • Moneylenders • Investment Funds • Credit Unions	Formula Driven	4.1 4.3 4.8 4.5 4.7	Application of relevant formula
• Approved Professional Bodies • Bureaux de Change • Retail Credit/Home Reversion/Credit Servicing Firms	Flat Rate	4.9 4.10 4.12	Allocated equally among the firms in each of these categories
• Low impact Payment and E-Money Institutions	Banding Structure	4.13	

Section 6 – Appendices

Appendix 1 – Comparison of 2019 and 2018 *Net Annual Funding Requirement (nAFR)*

Industry Sector	Description	2019 nAFR	2018 nAFR	Variance
		€'000	€'000	€'000
A1a	Irish authorised Credit Institutions admitted to the ELG Scheme 2009 and their subsidiaries	26,948	25,561	1,387
A1b/A2	Irish authorised Credit Institutions (other than those in A1a) and EEA Branches	36,631	25,061	11,570
A	Supplementary Levy for Credit Institutions	9,673	5,257	4,416
B	Insurance Undertakings	42,501	35,486	7,015
C	Intermediaries and Debt Management Firms	6,693	6,035	658
D/E2	Investment Firms and Investment Fund Service Providers	27,270	20,919	6,351
E1	Investment Funds	8,360	5,523	2,837
F	Credit Unions	2,770	1,680	1,090
G	Moneylenders	772	887	(115)
H	Approved Professional Bodies	8	33	(25)
J	Bureaux de Change	12	11	1
M	Retail Credit/Home Reversion/Credit Servicing Firms	2,410	1,286	1,124
N	Payment Institutions & E-Money Institutions	1,711	1,269	442
	Total	**165,760**	**129,008**	**36,751**
	Less 2019 Pro Rata Levies Issued[1]	(5,625)	0	(5,625)
	Total Amount to be raised	**160,135**	**129,008**	**31,126**

[1] *2019 Authorisation and Revocation levies issued from 1 Jan 2019 to 17 Feb 2020*

Appendix 2 – Population of Each Industry Sector

Industry Sector	Description	2019 No. of Entities	2018 No. of Entities	Change #	Change %
A1a	Significant Institutions that were admitted to the ELG Scheme 2009	3	3	-	-
A1b	Irish authorised Credit Institutions not in A1a and EEA branches (2019) Irish authorised Credit Institutions not in A1a (2018)	17	8	+9	+112.5
A2a	Non-retail subsidiaries of Significant Institutions; credit institutions authorised under Section 9A of the Central Bank Act, 1971 (2018) *For 2019, these entities have been reclassified and are included under A1b*	-	9	-9	-100.0
A2	Credit Institution - EEA Branch	27	-	+27	n/a[6]
A2b	Credit Institution - EEA Branch *For 2019, these entities have been reclassified and are included under A2*	-	34	-34	-100.0
B1 B4 B7	Insurance Life - Irish Head Office Insurance Non - Life Irish Head Office Reinsurance	193	213	-20	-9.4
B2 B5	Insurance Life - EEA Branch Insurance Non Life - EEA Branch	41	42	-1	-2.4
C	Intermediaries and Debt Management Companies	2,202	2,272	-70	-3.1
D1, D2, D3, D4, D6	Securities & Investment Firms	79	85	-6	-7.1
D5	Member Firms of the Irish Stock Exchange	6	7	-1	+14.3
D9	High Volume Algorithmic Traders	2	2	-	-
D10	Market Infrastructure Firms	6	4	+2	+50.0
D11	Investment Firm – EEA Branch	18	34	-16	-47.1
E1	Investment Funds	1,254	1,302	-48	-3.7
E2a, E2b, E2c	Investment Fund Service Providers	221	214	+7	+3.3
E2d	Investment Fund Service Providers – EEA Branch	6	7	-1	-14.3
F	Credit Unions	242	277	-35	-12.6
G	Moneylenders	35	38	-3	-7.9
H	Approved Professional Bodies	3	3	-	-
J1	Bureaux de Change	9	11	-2	-18.2
M	Retail Credit Firms, Home Reversion Firms and Credit Servicing Firms	28	32	-4	-12.5
N	Payment & E-Money Institutions	15	15	-	-

[6] Due to the re-structuring of sub-category A1b and the replacement of sub-categories A2a and A2b with one sub-category A2 in 2019, comparison of 2018 and 2019 population data is not possible for the new A2 sub-category.

Appendix 3 – Glossary

Central Bank means the Central Bank of Ireland.

BRRD is the Bank Recovery and Resolution Directive 2014. The BRRD sets out the rules for the resolution of Banks and large investment firms in all EU Member States.

Client Asset Requirements means those requirements imposed by the ***Central Bank*** under Regulation 79 of the European Communities (Markets in Financial Instruments) Regulations 2007 on investment firms that hold client assets. The Requirements are designed to protect and safeguard client assets (consisting of funds and financial instruments) which an investment firm, in the course of providing investment services, holds on behalf of clients. The Requirements are also imposed by the ***Central Bank*** under Section 52 of the Investment Intermediaries Act, 1995 on investment business firms authorised to hold client assets.

ELG Scheme Institution means a credit institution authorised under Irish legislation which was admitted to the Eligible Liabilities Guarantee Scheme, 2009.

Financial Service Providers see ***Regulated Entities***

Investment Fund Service Providers is the collective term used to describe the parties providing services to an investment fund.

Gross Annual Funding Requirement (gAFR) represents the relevant proportion (see Table 23 Section 4) of the budget for financial regulation activities for the year in question which will be funded by industry.

High Impact *regulated entities* are large domestic and international financial firms which are major players in their respective markets with considerable potential to cause large-scale damage to financial sector stability.

A **High Volume Algorithmic Trading Firm** is a ***regulated entity*** which primarily executes a large volume of buy and sell orders using proprietary algorithmic trading software technology.

Impact category is derived from the ***Central Bank***'s Probability Risk and Impact System (***PRISM***). It reflects the ***Central Bank***'s assessment of the potential impact of the failure of a ***regulated entity*** on financial stability and consumers.

Impact metric data means selected items extracted from a ***regulated entity's*** most recent ***On-Line Regulatory Return.***

Impact Score is derived from the ***Central Bank***'s Probability Risk and Impact System (***PRISM***). It represents a numeric evaluation of a ***regulated entity***'s potential impact calculated by combining ***impact metric data***.

Industry Funding Category - for the purposes of the annual Industry funding levy, ***regulated entities*** are categorised according to the financial activities they are authorised to undertake. For example, credit institutions are category A, insurance undertakings are category B, retail intermediaries are category C and so on. There are currently 12 industry funding categories. Please see Section 4 for further details.

Low Impact ***regulated entities*** constitute the bulk of the ***regulated entities*** operating in Ireland. Failure of individual ***regulated entities*** in this category would not cause significant damage to the State or its citizens as a whole.

Less Significant Institution: A Bank which continues to be under the direct supervision of the National Competent Authorities.

A **Markets Infrastructure Firm** is a ***regulated entity*** that either:

(a) operates a trading platform; or
(b) provides clearing and/or settlement services to market participants.

Medium High Impact ***regulated entities*** are large firms with considerable potential to cause prudential harm or customer loss. They are, however, not systemically important institutions and their failure, (if managed properly), should not derail the financial system or wider economy.

Medium Low Impact ***regulated entities*** are typically medium-sized and non-dominant players in their respective industries.

Net Annual Funding Requirement (nAFR) represents the adjustment of the ***Gross Annual Funding Requirement (gAFR)*** for the amount of any under/over recovery of the costs of financial regulation in the prior year.

On-Line Regulatory Return is the return that must be completed by certain types of ***regulated entities*** and submitted to the ***Central Bank*** by means of a secure web based system. The amount and type of information that the ***Central Bank*** requires to be included in these regulatory returns varies between financial sectors. Links to the sectoral requirements are available in the reporting requirements section of the Financial Regulation Industry Sectors.

PRISM (**P**robability **R**isk and **I**mpact **S**yste**M**) is the name given to the framework that the ***Central Bank*** has developed to apply risk based supervision.

Regulated Entities means persons who are subject to regulation under designated enactments and designated statutory instruments (including ***financial service providers*** whose business is subject to regulation by an Authority that performs functions in an EEA country that are comparable to the functions performed by the ***Central Bank*** under a designated enactment or designated statutory instrument) and also includes former regulated entities who were regulated for part of the levy period.

Regulator is the state body charged with the responsibility for the prudential supervision of authorised ***financial service providers.*** In Ireland, the regulator is the ***Central Bank*** of Ireland.

Significant Institution: A credit institution to which such importance is attached that it is directly overseen by the ECB.

Ultra High Impact ***regulated entities*** are the largest domestic ***regulated entities*** or international ***regulated entities*** with Irish headquarters and with potential to cause large scale damage to the financial system and the Irish economy.